ETFs in Insurance General Accounts – 2024

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Introduction

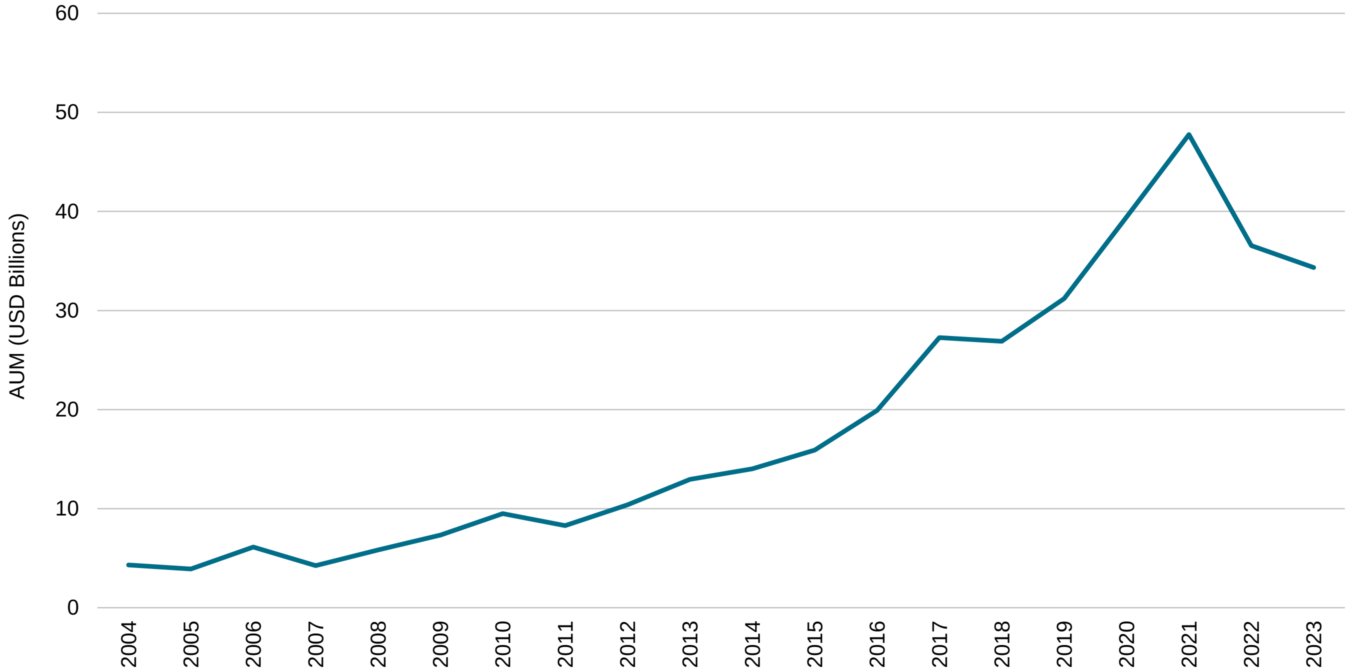
In 2023, U.S. insurers held USD 34.4 billion in exchange-traded funds (ETFs). For the second year in a row, we saw large outflows from large insurers. In 2022, the bear market exacerbated the outflows to decrease AUM by 23%. In 2023, the market acted against the outflows and AUM only decreased by 6%.

One company selling fixed income ETFs accounted for 50% of the outflows. These outflows accounted for most of the fixed income outflows. A more diversified set of companies selling equities accounted for the other half of the outflows. The combined outflows over 2022 and 2023 has altered the profile of ETF holdings by insurers. In our ninth annual study of ETF usage by U.S. insurance general accounts, we review ETF usage across various types of companies and across different asset classes. We also analyze how trading patterns have varied over the years.

Holding Analysis

As of year-end 2023, U.S. insurers invested USD 34.4 billion in ETFs. This is a fraction of the USD 8.1 trillion in U.S. ETF AUM, as well as the USD 8.4 trillion in insurance general account assets. Exhibit 1 shows the use of ETFs by U.S. insurers over the past 20 years.

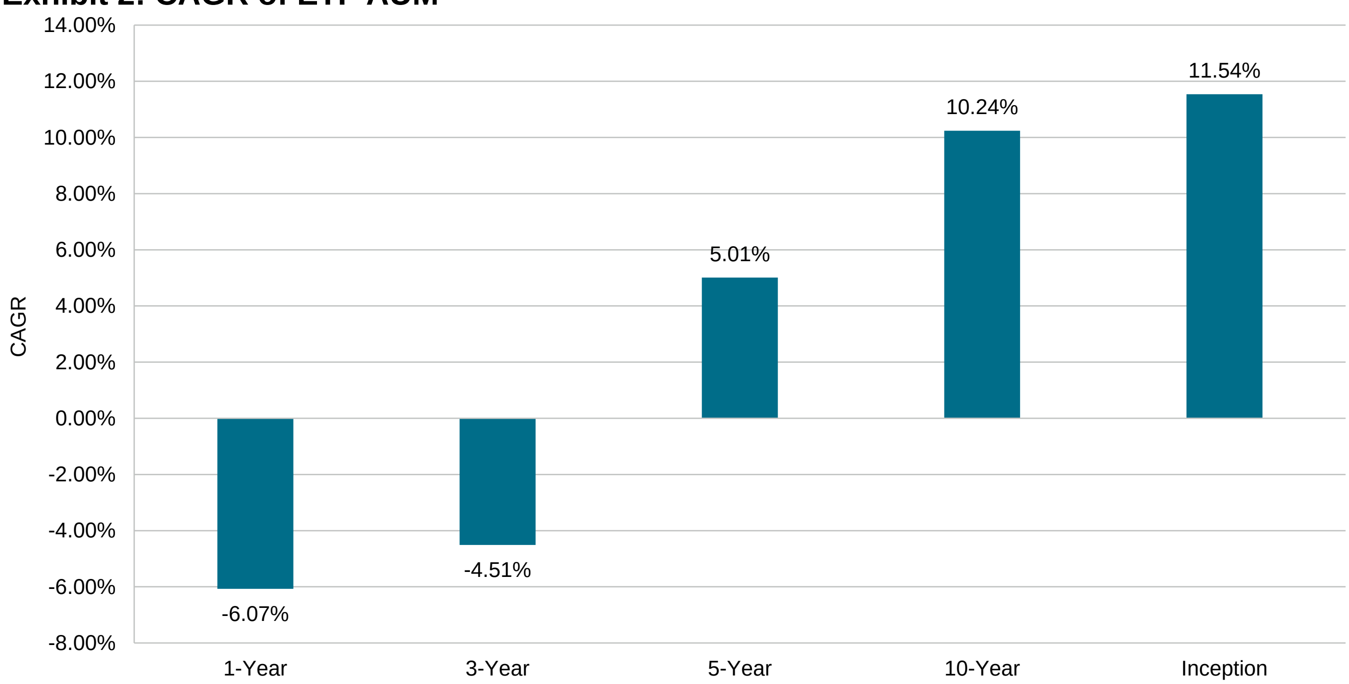
Exhibit 1: ETF AUM Growth



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In 2023, AUM decreased 6%. This is the first time ETF AUM had decreased two years in a row. This turned the three-year compound annual growth rate (CAGR) negative (see Exhibit 2).

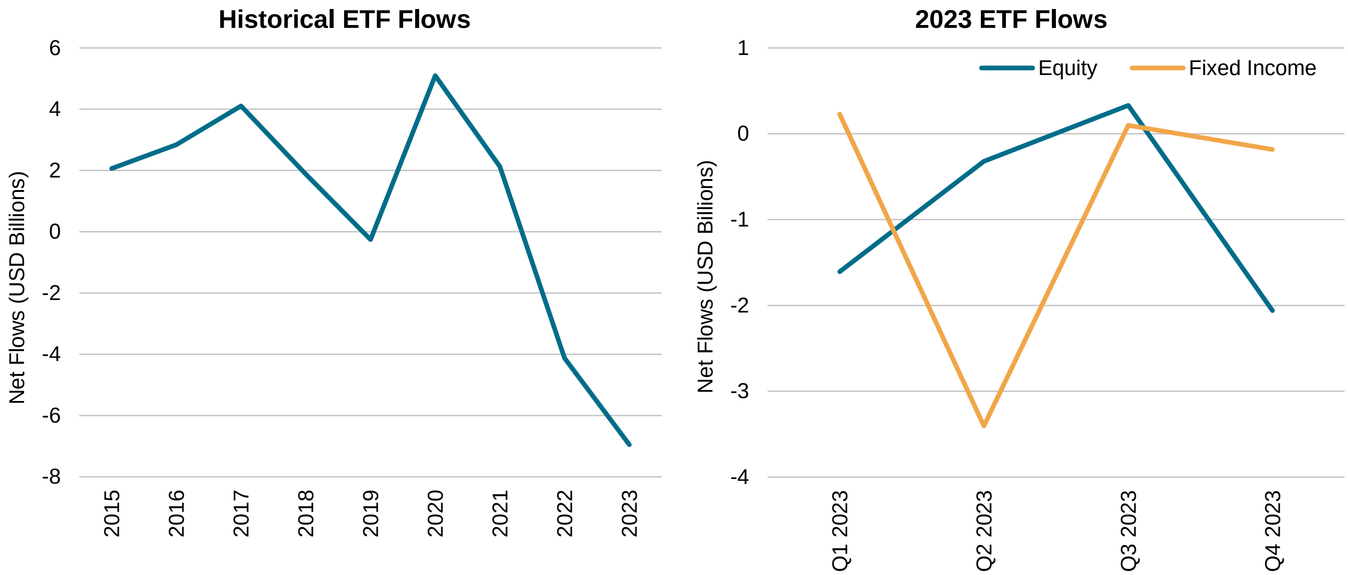
Exhibit 2: CAGR of ETF AUM



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In 2023, insurers took out USD 6.9 billion in ETFs. This is the largest selloff since we began analyzing insurance usage of ETFs (for the year 2015). The selloff of Equity ETFs that began in 2022 continued in the first quarter of 2023. Over 90% of the sales in the second quarter were from one company selling Fixed Income ETFs. Without that one insurer, flows would have been nominal. There was a pause in the third quarter, and the selloff in Equity ETFs picked back up in the fourth quarter (see Exhibit 3).

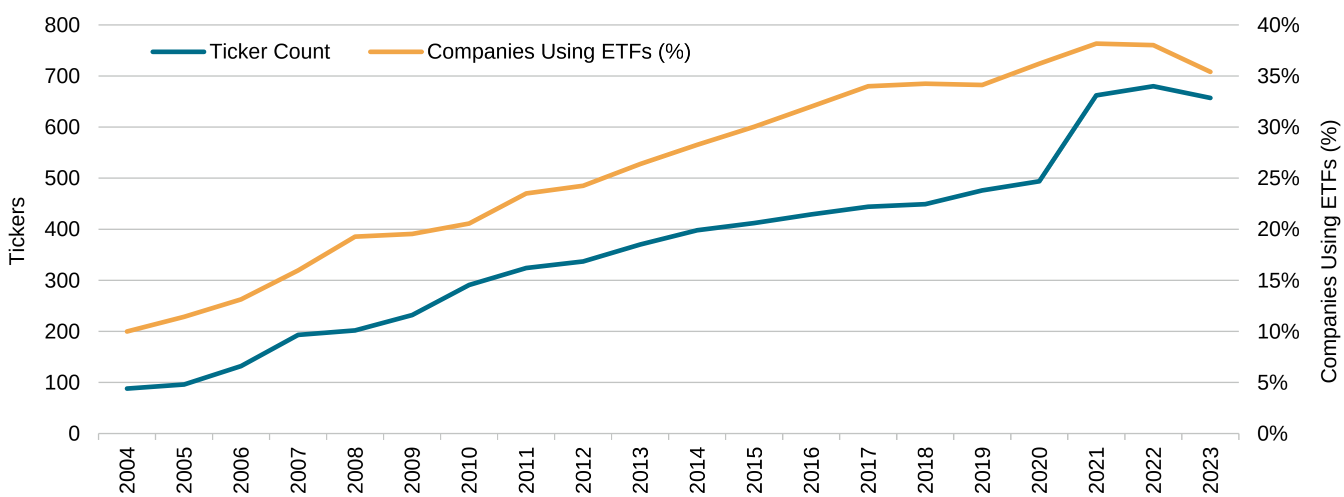
Exhibit 3: Insurance ETF Net Flows



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Table is provided for illustrative purposes.

2023 also saw a decline in the number of tickers used by insurers—down to 657—as well as a decline in the number of companies using ETFs—down to 646, which is only 35% of all insurers (see Exhibit 4).

Exhibit 4: ETF Usage

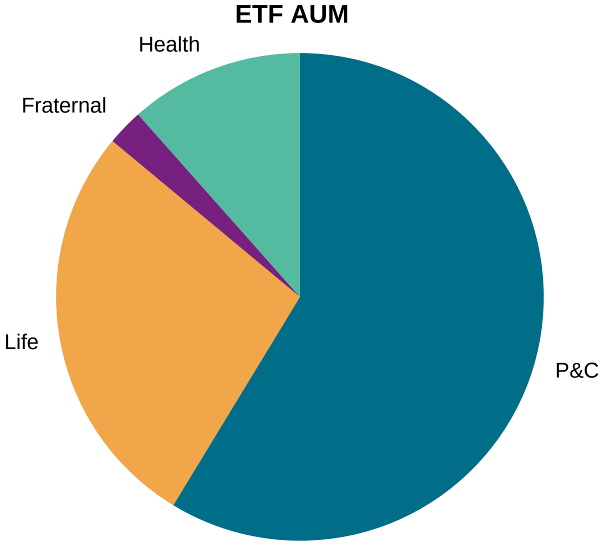


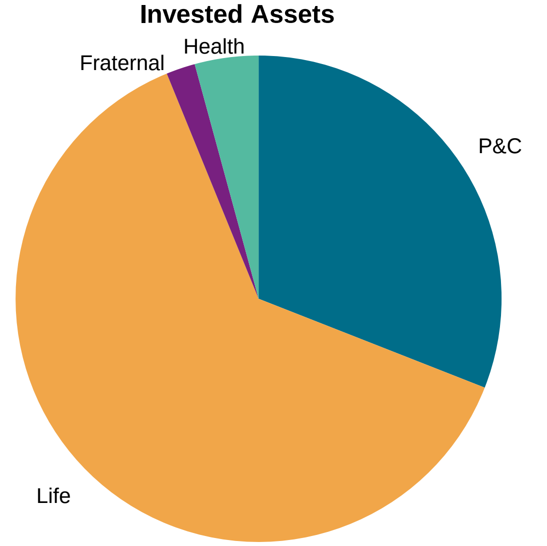
Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Charts are provided for illustrative purposes.

Analysis by Company Type and Size

In 2023, S&P Global Market Intelligence began reporting ETF usage from Fraternal insurance companies. They appear in this report for the first time, but we do not have historical data on their ETF usage. Life insurers have a larger invested asset base, but P&C companies have much higher investments in ETFs (see Exhibit 5).

Exhibit 5: ETF AUM and Invested Assets by Company Type

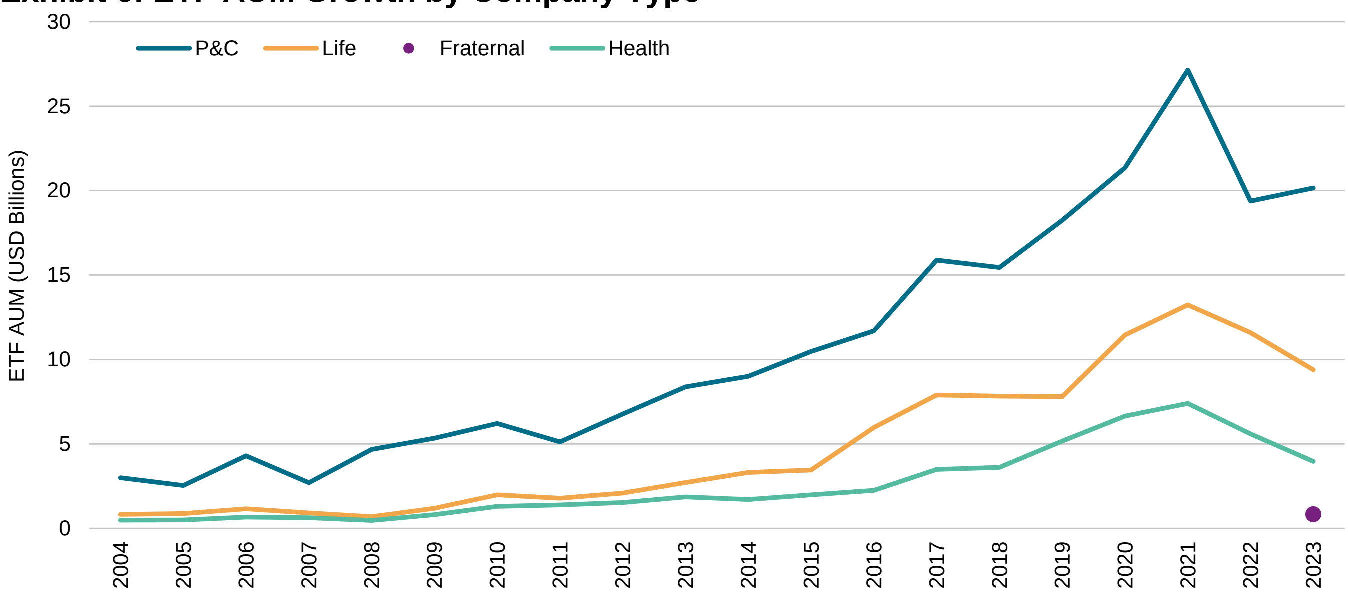




Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Charts are provided for illustrative purposes.

After the declines in 2022, ETF AUM from P&C companies increased slightly in 2023; however, there was a significant drawdown in Life and Health companies (see Exhibit 6).

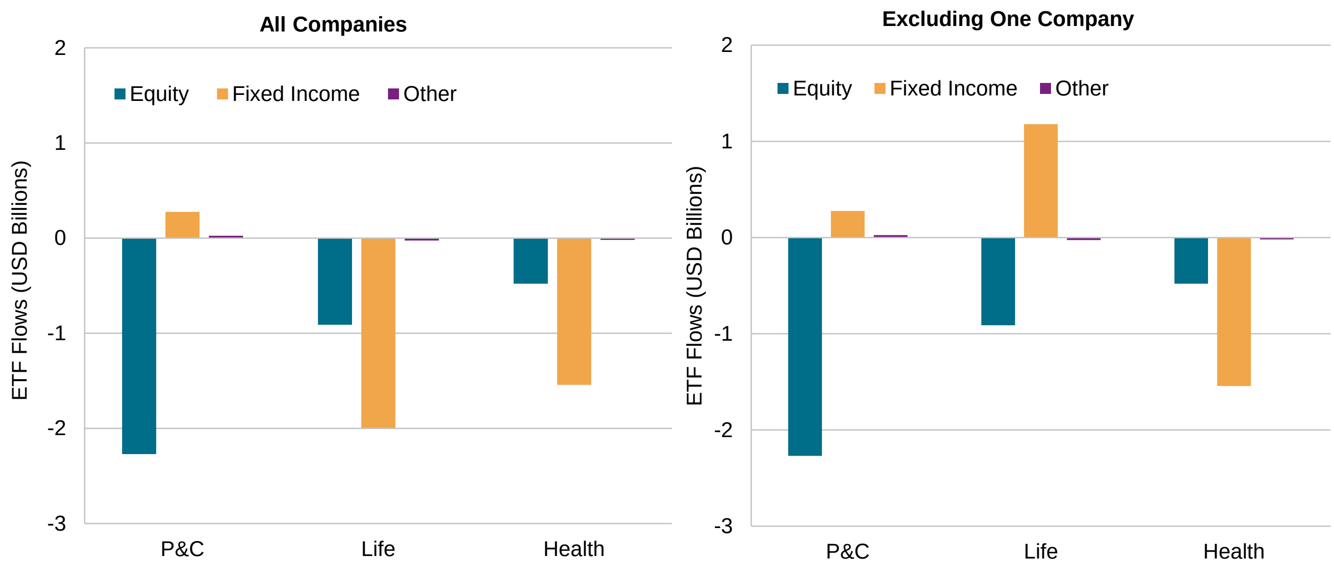
Exhibit 6: ETF AUM Growth by Company Type



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

P&C and Health companies each took out USD 2.0 billion in ETFs, and Life companies took out USD 2.9 billion. However, if we exclude one life company, the remaining life insurers increased Fixed Income ETF usage by USD 1.2 billion and overall ETF usage by USD 235 million (see Exhibit 7).

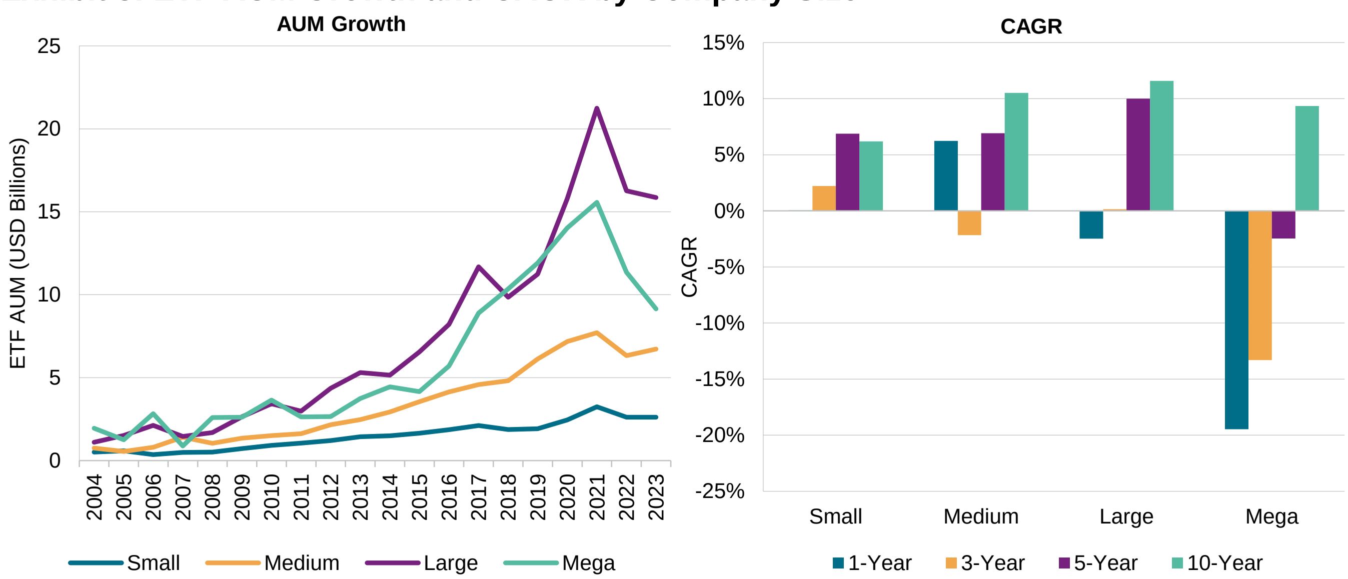
Exhibit 7: ETF Flows by Company Type



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

The recent selloff in ETFs has been concentrated in larger insurers. Small and Medium sized companies have continued to increase their use of ETFs (see Exhibit 8).

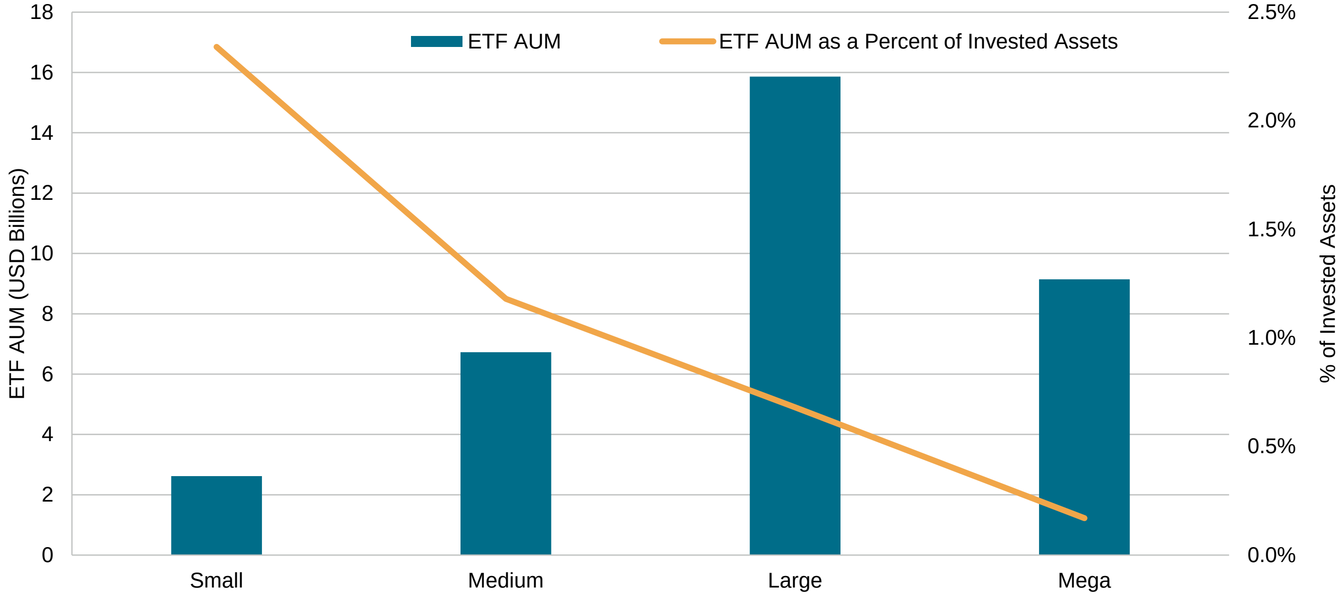
Exhibit 8: ETF AUM Growth and CAGR by Company Size



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

As a percentage of invested assets, smaller companies had more ETFs (see Exhibit 9).

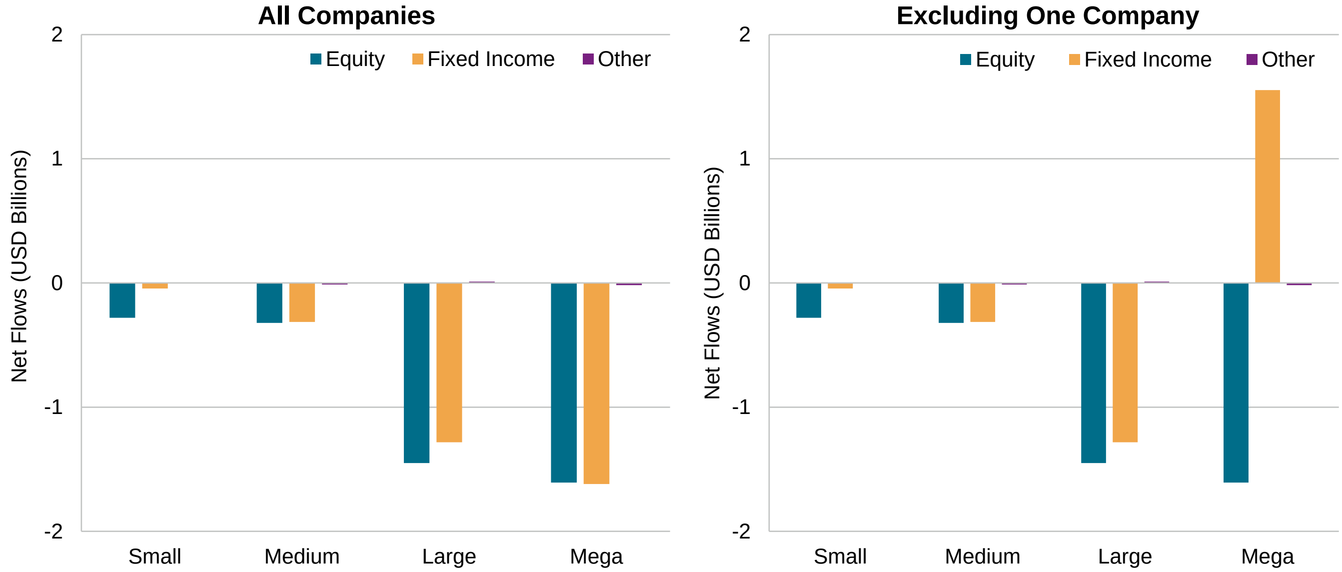
Exhibit 9: ETF AUM and ETF AUM as Percentage of Invested Assets by Company Size



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In 2023, companies of all sizes sold both Equity and Fixed Income ETFs. However, if we exclude one carrier, Mega companies actually added to Fixed Income ETFs and were the only category to do so (see Exhibit 10).

Exhibit 10: ETF Net Flows by Company Size

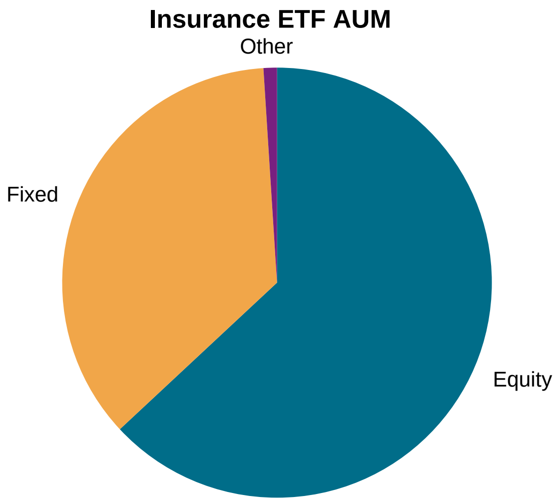


Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Charts are provided for illustrative purposes.

Analysis by Asset Class

In the overall U.S. ETF market at the end of 2023, Equities made up 79% of all ETF AUM; however, in the insurance general accounts, they only comprised 63% (see Exhibit 11). Equity ETF usage by insurers was, proportionally, higher than the previous year's 58%, but lower than it was in 2015 (85%).

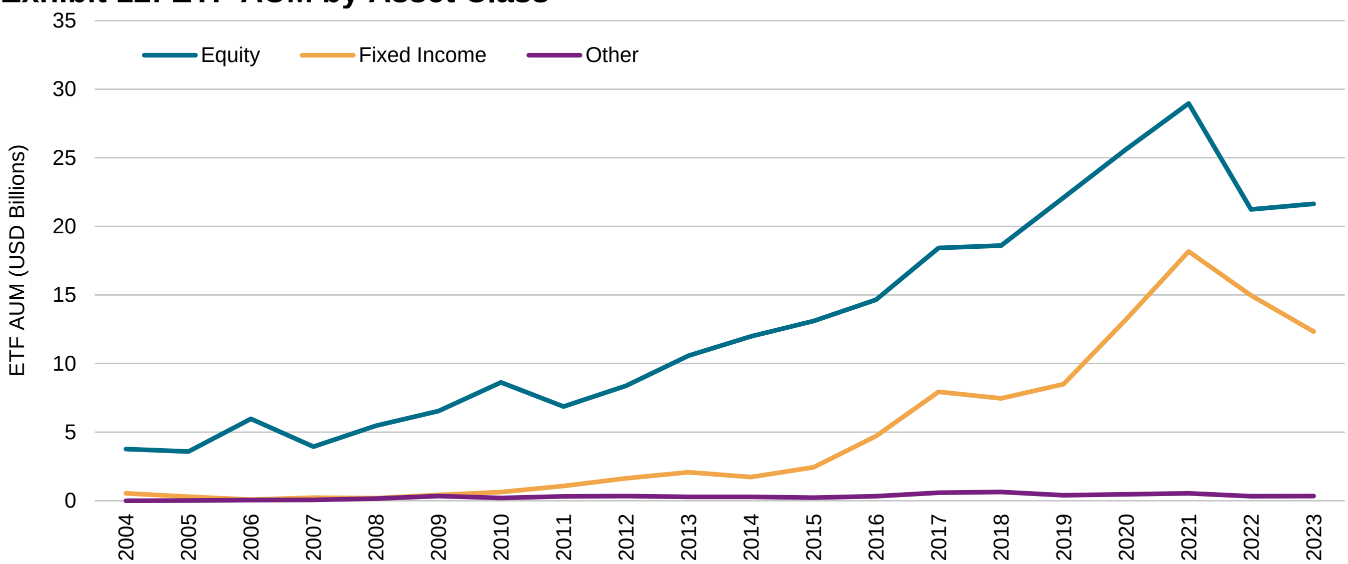
Exhibit 11: Insurance and U.S. Market ETF AUM by Asset Class



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Equity AUM increased slightly from last year, while Fixed Income AUM continued its decline. However, without the one Mega insurer, Fixed Income flows were relatively flat. Equities, on the other hand, saw USD 3.7 billion in outflows but showed an increase in AUM on valuation changes (see Exhibit 12).

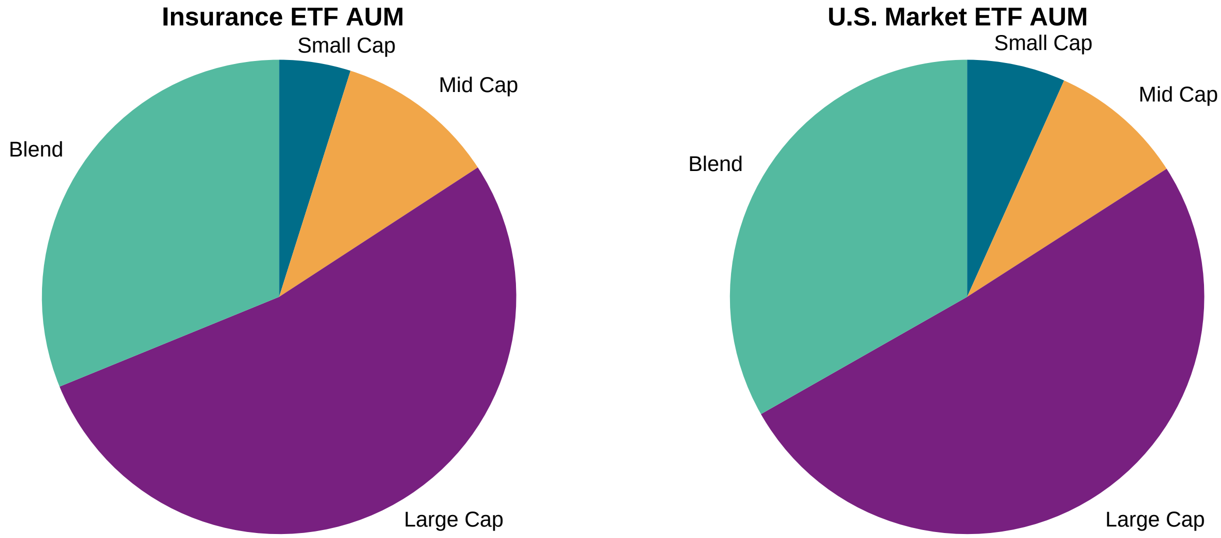
Exhibit 12: ETF AUM by Asset Class



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In terms of market capitalization, insurance investment was roughly in line with the overall market (see Exhibit 13). Large Cap dominated, with Blended ETFs making up about one-third and Small Cap and Mid Cap splitting the remainder.

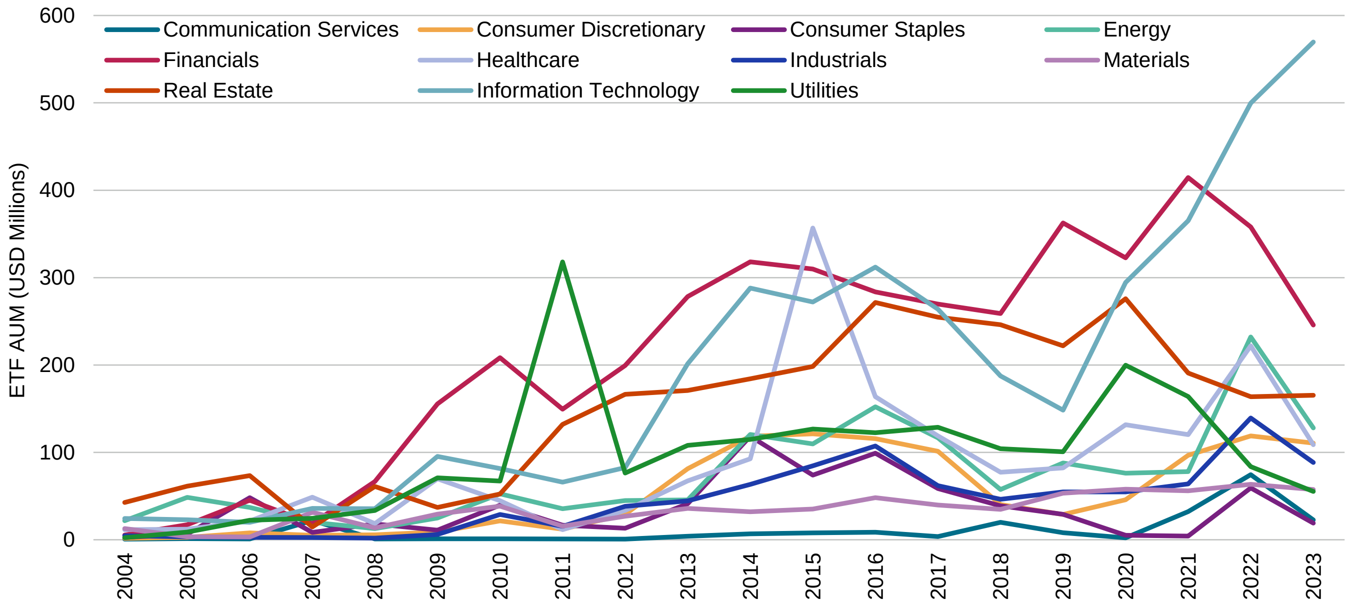
Exhibit 13: Insurance and U.S. Market Equity ETF AUM by Capitalization



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Charts are provided for illustrative purposes.

While the use of sector-specific ETFs has remained relatively constant, the use of sectors has continuously varied (see Exhibit 14). From 2022 to 2023, Financials declined while Information Technology soared, largely driven by valuation, as Information Technology ETFs have seen outflows.

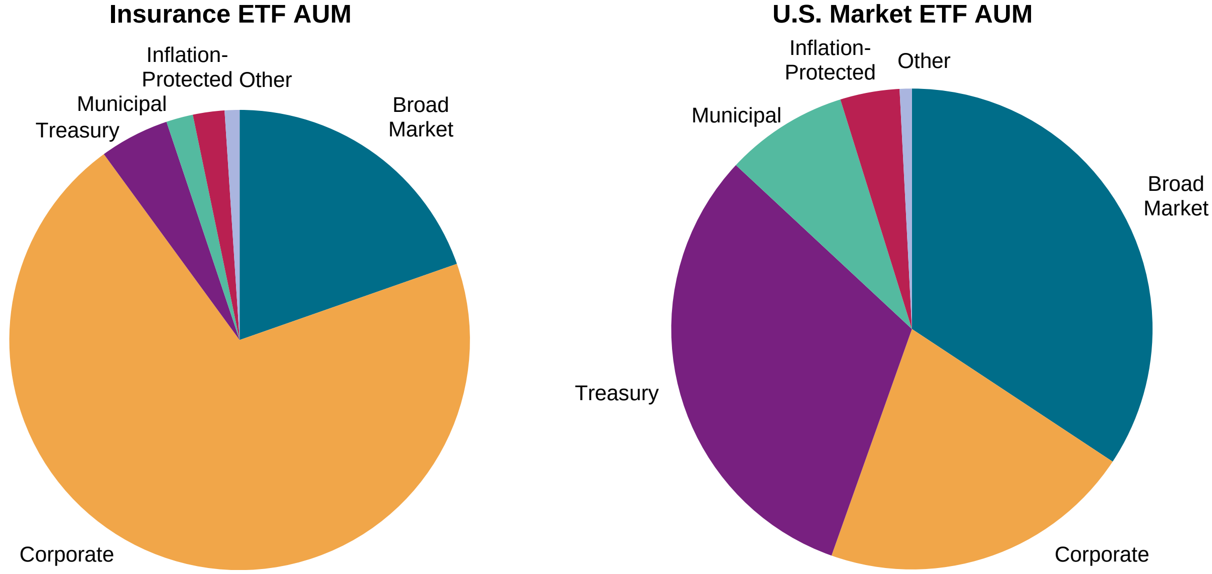
Exhibit 14: Sector ETF AUM



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Corporate ETFs dominate insurance usage of Fixed Income ETFs, even though they are only a small part of the overall U.S. ETF market (see Exhibit 15).

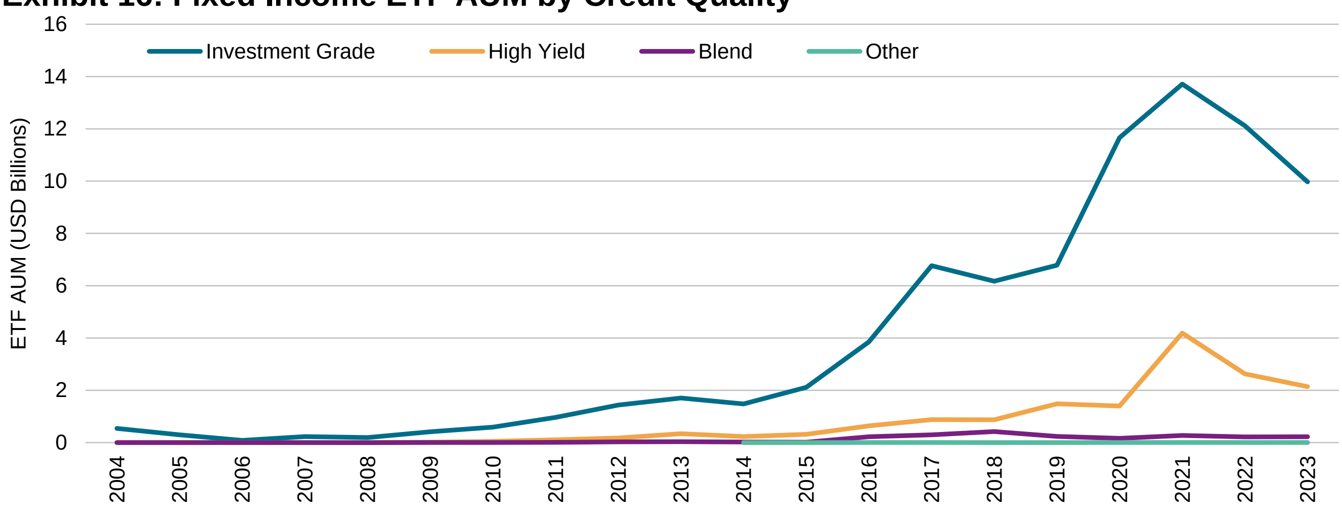
Exhibit 15: Insurance and U.S. Market Fixed Income ETF AUM by Bond Type



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

As expected for insurers, Investment Grade dominated Fixed Income ETF usage, but Investment Grade has shown a greater nominal decline, while High Yield has declined more proportionally (see Exhibit 16).

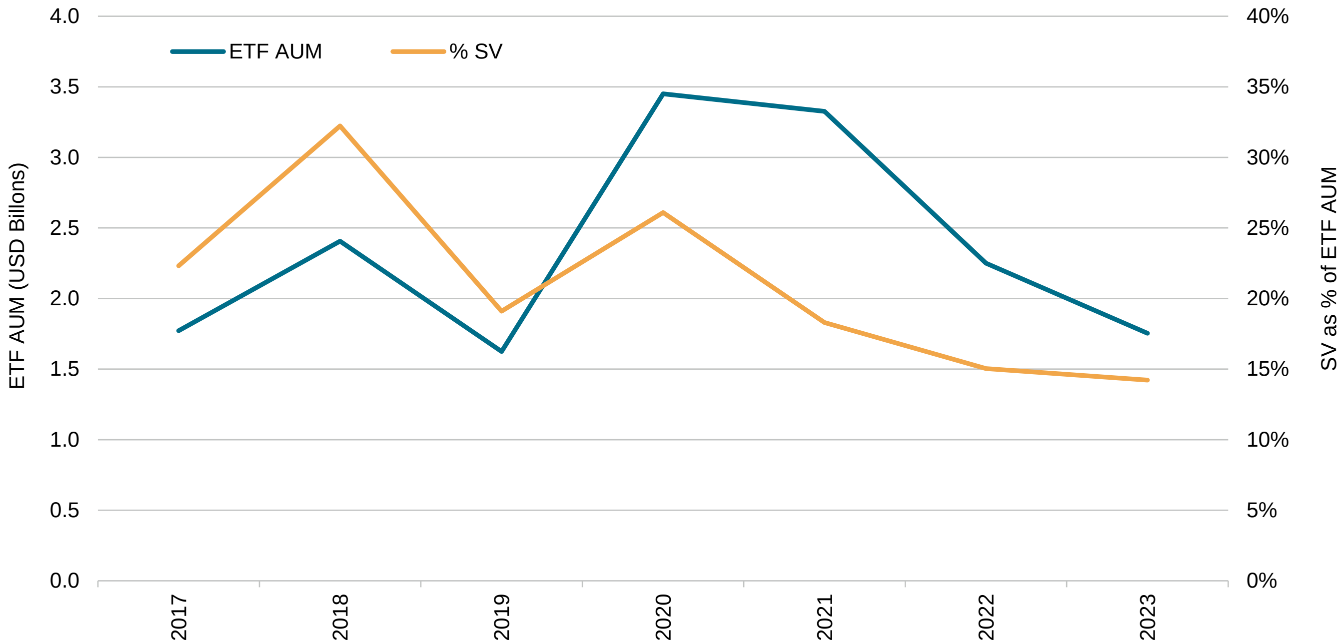
Exhibit 16: Fixed Income ETF AUM by Credit Quality



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Although the use of Systematic Valuation (SV) was expected to make the use of Fixed Income ETFs easier for insurers, the amount and percentage of Fixed Income ETFs designated as SV continued to decline (see Exhibit 17).

Exhibit 17: Use of Systematic Valuation

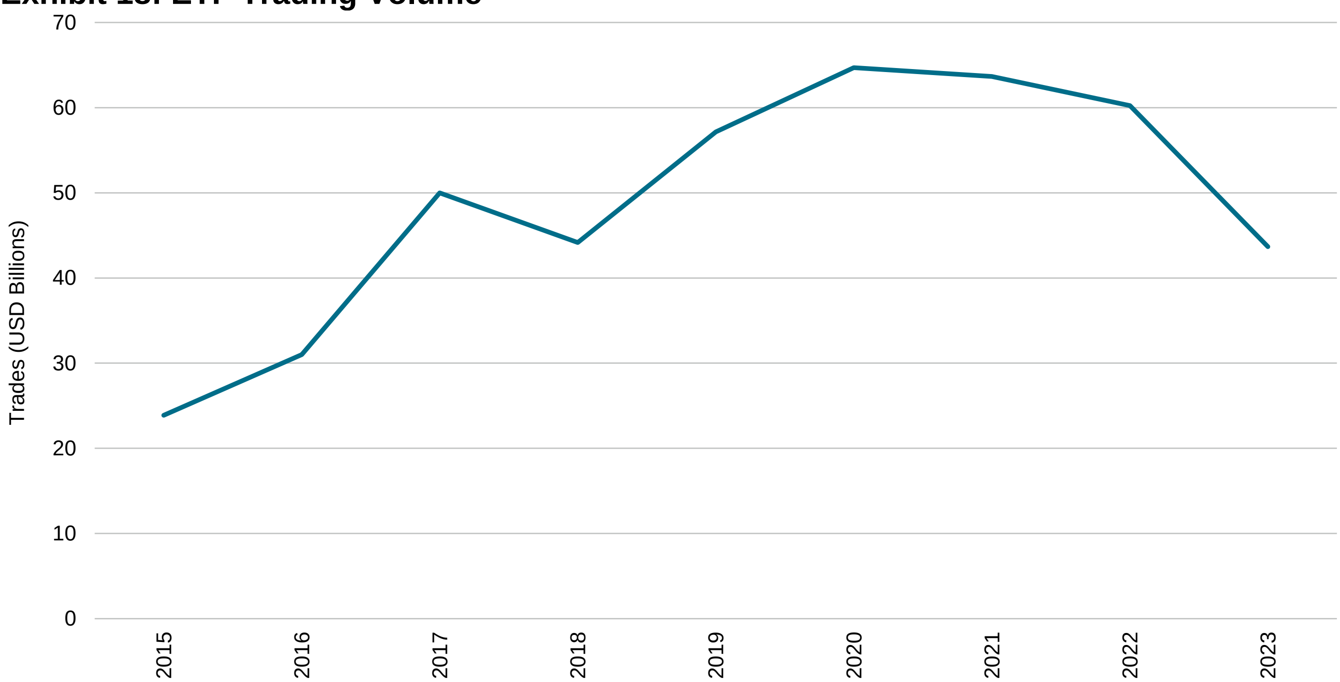


Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Trade Analysis

2023 saw a 27% decline in ETF trading volume by insurance companies (see Exhibit 18).

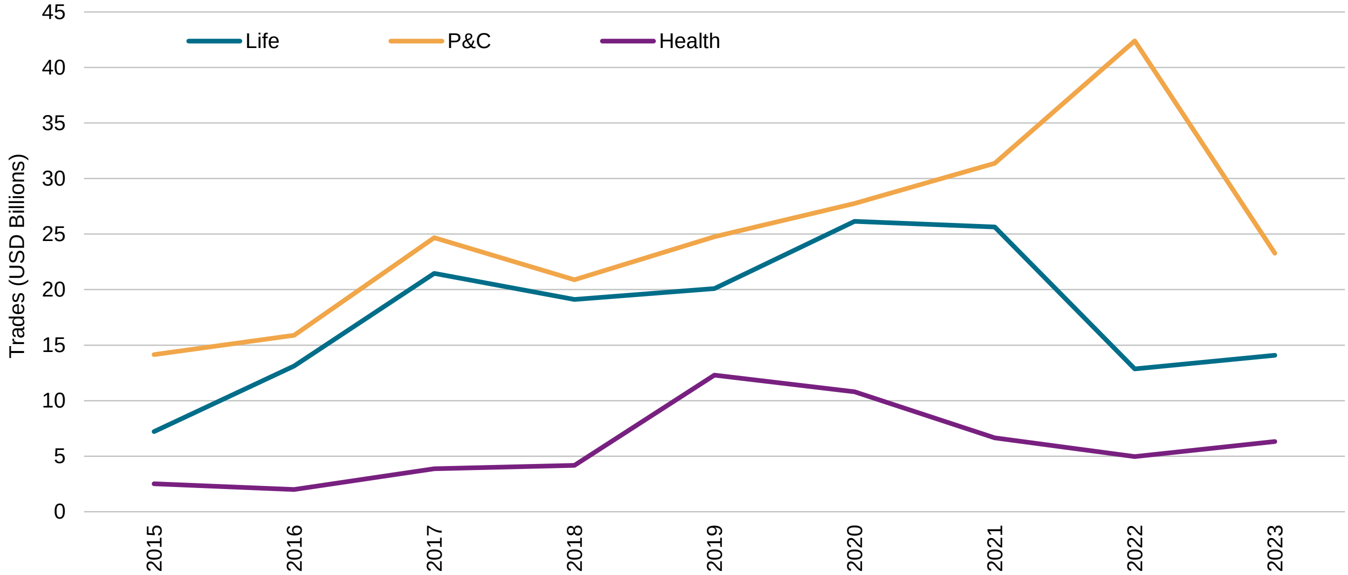
Exhibit 18: ETF Trading Volume



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Although volume was down considerably, P&C companies still did most of the ETF trading by insurers (see Exhibit 19).

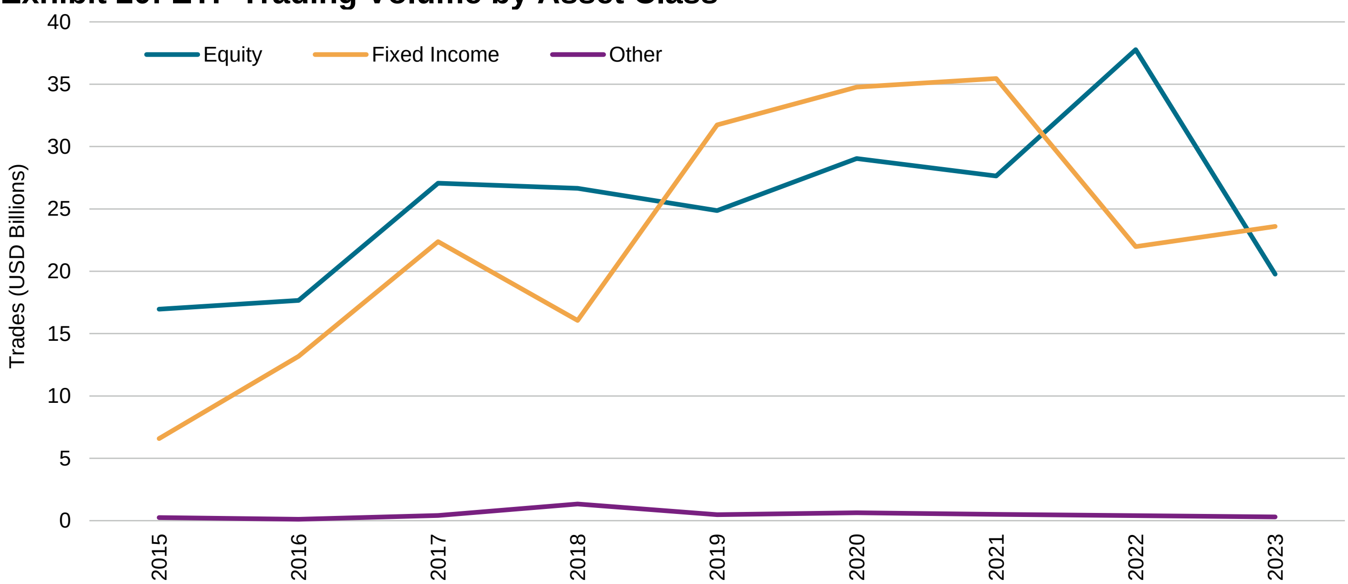
Exhibit 19: ETF Trading Volume by Company Type



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

In a reversal from 2022, insurers traded more Fixed Income ETFs than Equity ETFs (see Exhibit 20).

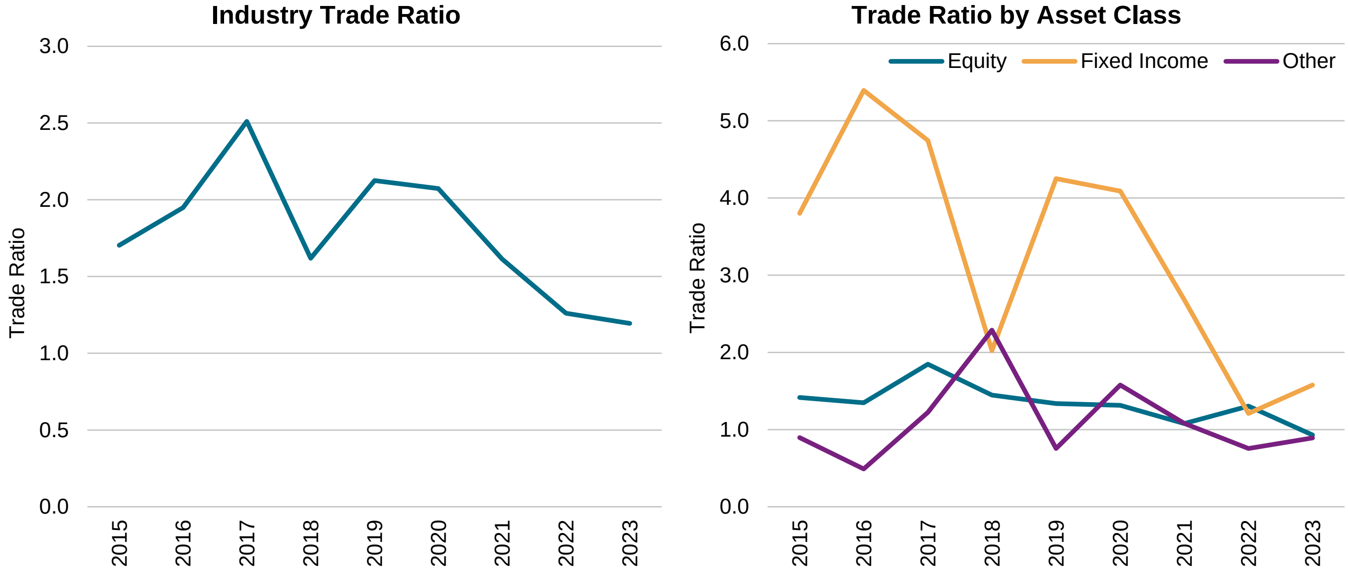
Exhibit 20: ETF Trading Volume by Asset Class



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2022. Chart is provided for illustrative purposes.

As was done in our last report, we combined the holding and trade data to analyze the amount of trading relative to holding. We define “trade ratio” as the amount traded in a given year divided by the amount of ETFs held at the beginning of the same year. The overall trade ratio continued to decline for insurers, but the trade ratio for Fixed Income did slightly increase in 2023 (see Exhibit 21).

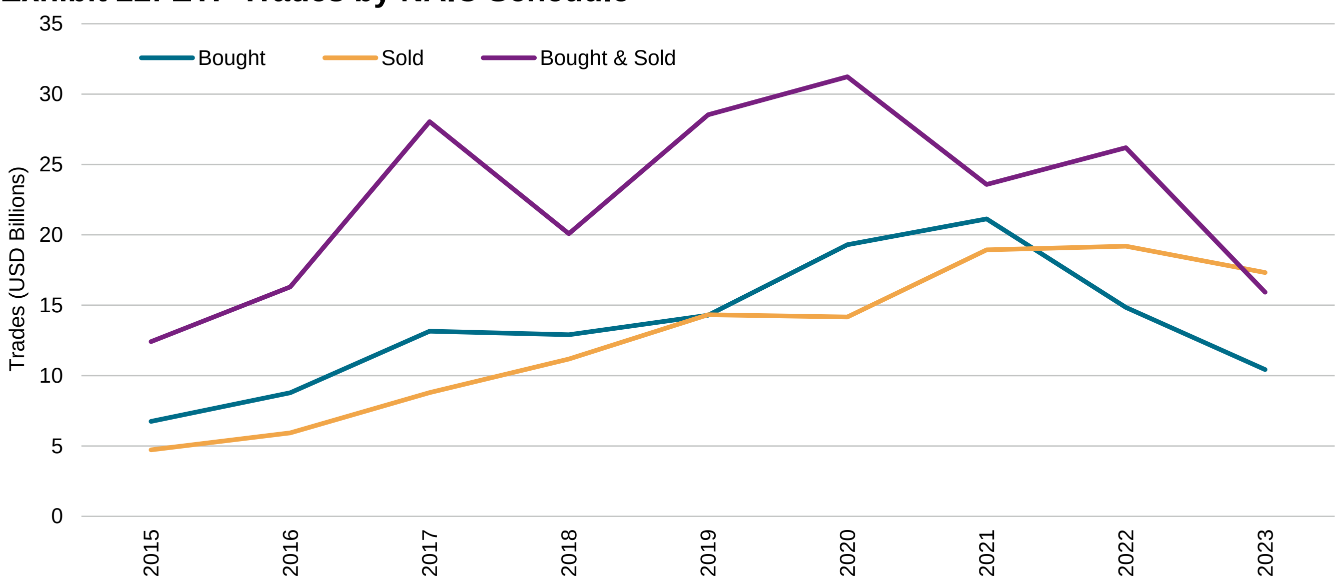
Exhibit 21: Trade Ratio and Trade Ratio by Asset Class



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Historically, most of the trades were reported in Schedule D, Part 5; i.e., securities that were bought and sold in the same year. However, in 2023, trades from purely selling ETFs exceeded this value (see Exhibit 22).

Exhibit 22: ETF Trades by NAIC Schedule



Source: NAIC via S&P Global Market Intelligence. Data as of Dec. 31, 2023. Chart is provided for illustrative purposes.

Appendix 1: Methodology

The National Association of Insurance Commissioners (NAIC) requires all U.S. insurance companies to file an annual statement with state regulators. This filing includes a detailed holdings list of all securities held by insurance companies. S&P Global Market Intelligence (SPGMI) compiled this data from the NAIC and makes it available in a usable format. From this database, we extracted all insurance ETF holdings and trades, both current and historical. In addition, CFRA ETF Data, which is an ETF data and analytics company, provided us with a list of U.S. ETFs, as well as characteristics of each ETF—such as asset class, stock strategy, bond credit quality, etc. We combined CFRA ETF classifications with SPGMI statutory filing data to gain insight into how insurance companies use ETFs.

Appendix 1.1: S&P Global Market Intelligence Data

For U.S. insurance companies, we used NAIC data as compiled by SPGMI. U.S. insurance companies filed the data with the NAIC at the end of February 2024. SPGMI retrieved the data and loaded it into its database. The completeness of the database depended on the timeliness of SPGMI receiving the data from the NAIC and the amount of quality control SPGMI performs. To get timely yet complete information, we retrieved the data for this analysis on April 24, 2024.

SPGMI classified companies in various ways. For companies that are members of a group, we classified all companies the same way as a group; for example, if a group contained individual companies of various ownership structures (Stock, Reciprocal Exchange, Lloyd's Syndicate, etc.), but SPGMI classified the group as a Stock company. For this analysis, we assigned the ownership structure of the parent organization to all the subsidiaries. We do a similar assignment across all the features in this report.

We segregated companies by size, based on their invested assets as of Dec. 31, 2023.

- Small: Invested assets < USD 500 million
- Medium: USD 500 million ≤ invested assets < USD 5 billion
- Large: USD 5 billion ≤ invested assets < USD 50 billion
- Mega: Invested assets ≥ 50 billion

Historically, invested assets were concentrated in Mega companies.

SPGMI classified the ownership of each company in 16 different ways, which we condensed into four ownership structures.

- Stock: Stock companies
- Mutual: Mutual companies

- Fraternal: Fraternal companies
- Other: BC/BS Not for Profit; BC/BS Stock; Hospital, Medical, and Dental Service or Indemnity Corp; Limited Liability Corporation; Lloyd’s Organization; Non Profit; Partnership (All Types); Proprietorship; Reciprocal Exchange; Risk Retention Group; Syndicate; U.S. Branch of Alien Insurer; and Other

Appendix 1.2: CFRA ETF Data

We used CFRA ETF Data (CFRA) as the source of ETF data in this analysis. We used the categorization labels developed by CFRA in this analysis. For example, we used CFRA’s definition of bond type. We also relied on CFRA to classify every Fixed Income ETF. We assume consistency and completeness of the data provided by CFRA.

We note that insurance companies do not invest in a vast majority of these funds. While we refer to these funds as ETFs, the funds have varying legal structures. The vast majority of the funds in the list are open-ended ETFs. However, a few large funds have a Unit Investment Trust or Grantor Trust. The remaining legal structures, including semi-transparent ETFs, do not represent a material amount of assets. For this reason, we do not analyze ETF usage by legal structure and refer to all these funds as ETFs.

Often, CFRA classified ETFs in more granular detail than was needed for this analysis. In these instances, we combined fields to make our analysis more meaningful.

For example, the CFRA field of asset class contained six different categories. We collapsed these into three.

- Equity: Equities
- Fixed Income: Bonds
- Other: Commodities & Metals, Currency, Target Date/Multi Asset and Other Asset types

CFRA segregated Equity ETFs into eight buckets by market capitalization. We consolidated these into four buckets.

- Blend: Broad Market/Multi Cap
- Large Cap: Large Cap and Mega Cap
- Mid Cap: Mid Cap, Large & Mid Cap and Small & Mid Cap
- Small Cap: Small Cap and Micro Cap

CFRA classified individual sector fields for Equity ETFs. CFRA also identified whether an ETF was not sector specific or rotated through different sectors. Using this field, we identified whether an Equity ETF was a Sector ETF or not.

- Not Sector: Not Applicable, Sector Rotation/Combination
- Sector: All Other

CFRA classified Fixed Income ETFs into eight types. We narrowed this into the following six bond types.

- Broad Market: Broad Market
- Corporate: Corporate
- Treasury: Treasury & Government
- Municipal: Municipal
- Inflation-Protected: Inflation Protected
- Other: Convertible, Mortgages and Not Applicable

In terms of credit quality, CFRA classified Fixed Income ETFs as Investment Grade, High Yield, Blend or Not Applicable.

Appendix 1.3: Data Extraction Methodology

In 2022, SPGMI introduced two templates to extract data for both ETF Holdings and ETF Transactions from their database. This methodology is slightly different than the extraction methodology previously used in reports published prior to 2023. There is minimal variation in the data extracted by the two methods. In this report, we used the SPGMI templates to extract ETF usage by insurers. For consistency across S&P Global divisions, we used the templates for the production of the 2024 report and will continue to do so in future reports.

In order to publish this paper in a timely manner, we extracted the data from the SPGMI database in April 2024. However, as noted above, some of the data remains incomplete. When we began the analysis for this year, the data was updated.

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